The Monthly Mu$e

Ideas and concepts to consider

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Greetings,

As the temperatures are getting colder, it is starting to look like that time of year again! We hope you all have a great fall and have the opportunity to spend time with friends and family this month.

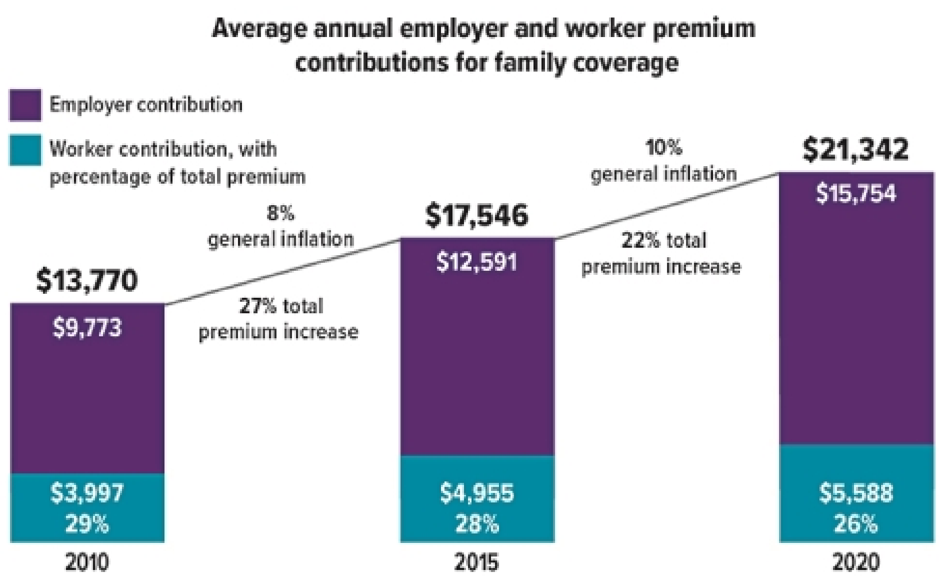
For many of you, the end-of-year brings flex benefit choice and opportunities for planning. Please give me a call if I can help you with year-end investment planning needs.

Sincerely,

Ross and Rylan

Rising Premiums

Approximately 157 million Americans are covered by employer-sponsored health insurance. From 2010 to 2020, premiums increased much faster than the rate of general inflation, although the increase has slowed somewhat in recent years. Employers absorbed the largest share of the premium increases, and the percentage paid by workers dropped over the period. However, workers are paying additional costs in the form of higher deductibles and other out-of-pocket expenses.



Source: Kaiser Family Foundation, 2020

Year-End 2021 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Defer Income to Next Year

Consider opportunities to defer income to 2022, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2022) could make a difference on your 2021 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 60%, 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.) For 2021 charitable gifts, the normal rules have been enhanced: The limit is increased to 100% of AGI for direct cash gifts to public charities. And even if you don't itemize deductions, you can receive a $300 charitable deduction ($600 for joint returns) for direct cash gifts to public charities (in addition to the standard deduction).

Bump Up Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Increase Retirement Savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2021 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2021, you can contribute up to $19,500 to a 401(k) plan ($26,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2021 contributions to an employer plan generally closes at the end of the year, while you have until April 15, 2022, to make 2021 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

RMDs Are Back in 2021

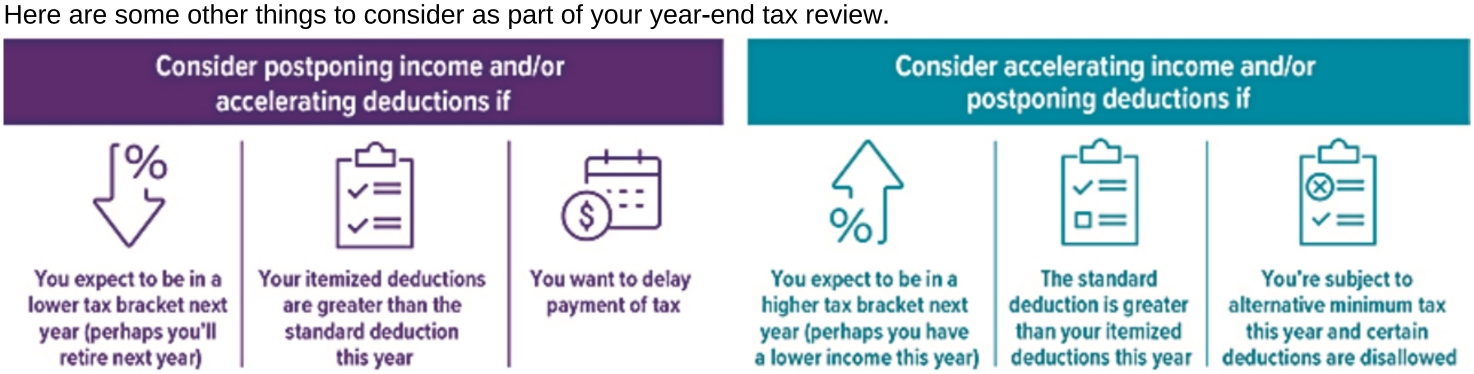
While required minimum distributions (RMDs) were waived for 2020, they are back for 2021. If you are age 72 or older, you generally must take RMDs from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required. After the death of the IRA owner or plan participant, distributions are also generally required by beneficiaries (either annually or under the 10-year rule; there are special rules for spouses).

Weigh Year-End Investment Moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.

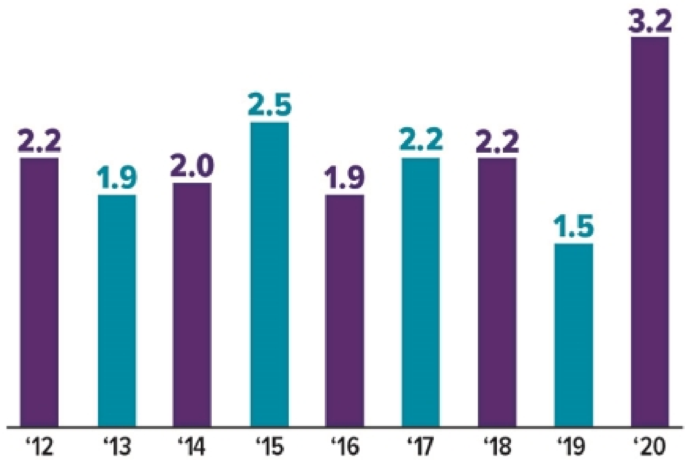


Should You Speed Up Your Retirement Plans?

According to a March 2021 survey, an estimated 2.8 million Americans ages 55 and older decided to file for Social Security benefits earlier than they expected because of COVID-19. This was about double the 1.4 million people in the same age group who said they expected to work longer, presumably due to pandemic-related financial losses.[1]

Many older workers were pushed into retirement after losing their jobs, and others may have had health concerns. Still, it appears that work-related stress and the emotional toll of the pandemic caused a lot of people to rethink their priorities and their retirement timelines.

Annual increase in the number of retired baby boomers (in millions)



Source: Pew Research Center, 2020

How do you know if you can realistically afford to retire early? First and foremost, determine whether you will have enough income to support the lifestyle you envision. Instead of accumulating assets, you may have to start draining your life savings to cover living expenses. Here are four important factors to consider.

Lost Income and Savings

You may be sacrificing years of future earnings and contributions to your retirement accounts. For example, an early retiree who was making $80,000 per year would forgo about $400,000 of salary over five years or $800,000 over a decade, not counting cost-of-living or merit increases. The 10-year total rises to nearly $1 million when annual raises averaging just 3% are included.

If the same retiree could have contributed 5% of salary to an employer-sponsored retirement plan with a 100% match, he or she would also miss out on $8,000 in contributions in the first year, more than $40,000 over five years, and almost $100,000 over 10 years.

Debt and Other Financial Responsibilities

If you are still paying a mortgage, have other debts, or are supporting children or aging parents, you may not be ready to retire. Ideally, you should be free of "extra" financial responsibilities so you can focus on meeting your own living expenses without a regular paycheck.

Reduced Social Security Benefits

The earliest age you can file for Social Security is 62, but your benefit would be reduced to 70% or 75% of your full retirement benefit — for the rest of your life. So even if you do decide to retire, you might think about waiting to claim your benefit until you reach full retirement age (age 66 to 67, depending on the year you were born) or longer if you have enough income and/or savings to cover your expenses. For every year you wait past your full retirement age, your benefits will increase by 8% (up to age 70).

Higher Medical Costs

If you retire before you (or a spouse) become eligible for Medicare at age 65, you could lose access to an affordable employer-provided health plan. You can purchase health insurance through the Health Insurance Marketplace or a broker, but the age-based premiums are more expensive for older applicants. For two 60-year-olds with a household income of $100,000, the average premium for a silver Marketplace plan in 2021 is $708 per month ($8,500 per year), after subsidies. And if you seek medical treatment, you'll typically need to cover copays, deductibles, coinsurance, and some other expenses (up to the plan's out-of-pocket maximum).[2]

Even with Medicare, it's estimated that a married couple who retired at age 65 in 2020, with median prescription drug expenses, would need $270,000 to have a 90% chance of paying their health-care costs throughout retirement.[3]

The bottom line is that some people might be giving up more than they realize when they retire early. Before you say goodbye to the working world, be sure you have the resources to carry you through the next phase of your life.

1) U.S. Census Bureau, 2021

2) Kaiser Family Foundation, 2021

3) Employee Benefit Research Institute, 2020

Is Your Business Eligible for the Research and Development Tax Credit?

Has your business encountered and solved technological challenges in recent years? Maybe you invested in software development, re-engineered manufacturing processes, or performed laboratory testing. If so, then your business may be eligible for the federal research and development (R&D) tax credit. This credit may be available to U.S. business owners who spent money to develop new products or improve the performance, functionality, reliability, or quality of existing products or trade processes — whether the work was done by employees or a third-party contractor.

Section 41 of the Internal Revenue Code lays out the rules and regulations surrounding the R&D tax credit. The Protecting Americans from Tax Hikes (PATH) Act of 2015 made the credit permanent and broadened its scope to include many small to midsize businesses.

What is the benefit of the R&D tax credit? Generally, the R&D tax credit is a nonrefundable amount that taxpayers can subtract from their federal taxable income. Typically, 6% to 8% of a company's annual qualifying research and development expenses may be applied against the company's federal tax liability. If your available tax credit exceeds your tax liability, you can carry your credit forward for up to 20 years. Also, in some instances the R&D tax credit may be used to offset alternative minimum tax, while in other instances, a qualifying new business may be able to apply up to $250,000 of its R&D tax credit to its payroll tax liability.

What qualifies as research and development? The credit is a percentage of qualified research expenses (QRE) above a base amount established by the IRS in a four-part test:

- **Elimination of uncertainty.** The purpose of the research must be intended to eliminate uncertainty relative to the development or improvement of a product or process.
- **Process of experimentation.** The research must include experimentation or systematic trial and error to overcome technical uncertainties.
- **Technological in nature.** The research must rely on "hard sciences" such as engineering, physics, and chemistry, or the life, biological, or computer sciences.
- **Qualified purpose.** The research or activity must be aimed at creating a new or improved product or process, resulting in increased functionality, quality, reliability, or performance of a business component.

A tax professional can help you determine if your business is eligible for this potentially lucrative tax benefit. If you do claim the tax credit, be prepared to document and support any qualifying R&D activities.